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IMPLICATIONS FOR TRADE, ESPECIALLY WITH THE DEVELOPING COUNTRIES, OF STRUCTURAL REFORMS IN THE SOVIET ECONOMY

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*/ The views expressed in this study are those of the author and do not necessarily reflect the views of the UNCTAD secretariat.

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FOREWORD
by the UNCTAD secretariat

(i) This study is circulated in pursuit of the understanding endorsed by the Trade and Development Board that, in the light of policy changes in the countries in Eastern Europe, future consideration of any relevant issues requiring attention should be dealt with in the context of the overall problematique of international trade and economic co-operation.

(ii) The present analysis of the implications of structural adjustment in the Soviet economy for the trade of the USSR, especially trade with the developing countries, represents the author's own vision of the substance and methods of implementation of the economic reform in the USSR, including ways of transition to a market economy. The problems involved are analyzed with regard to growing economic interdependence and the greater influence of international, trade and economic interaction upon decision-making in the context of national reforming activity.

(iii) The author's views on how to reorient and readjust the foreign economic policies and management of the USSR (including policies vis-à-vis the developing countries) should be considered primarily against the background of Soviet efforts to ensure the USSR's integration into the world economy and international economic relations on the basis of extensive application of market mechanisms and incentives.

1. Major features of foreign economic relations with the developing countries and prospects for growth of trade with these countries

1. The new strategy for the foreign economic relations of the USSR is as follows: by "opening" its economy, the Soviet Union becomes fully involved in the international division of labour. And this should be one of the major factors that will increase the efficiency of the Soviet economy and its contribution to the progress of the world community.

2. The new role of imports is defined quite clearly: to move from their balancing and partly supplementary function to a supplementary and substituting one. Soviet imports should lighten the burden placed upon natural resources and should also help to satisfy the purchasing capacity of the population, thus becoming one of the factors that will make the Soviet economic system more dynamic. As for exports, their new role is not only to provide funds for imports but also to become a factor of technological improvement through the mechanism of competition. The latter function should also be fulfilled by imports.

3. Considerations to be taken into account include the following:

- The USSR, like most of the Eastern European countries, is going through a transition period in the reconstruction of its economic system. This certainly creates temporary difficulties as far as its comprehensive participation in world trade (including trade with the developing countries) is concerned. However, this reforming process is an important factor in creating a new structure of trade (the latter will be influenced, inter alia, by the decision that, beginning 1 January 1991, the transactions of the USSR with the CMEA member countries should be conducted in hard currencies);

- The developing countries are no longer homogeneous and include such different cases as newly industrialized countries (NICs) and least developed countries (LDCs). In order to trade with all of them, one should take into account their peculiarities;

- Most trade between the USSR and the developing countries must be developed on an economic and commercial basis;

- The developing countries face difficulties when choosing their national economic and social systems;

- The terms of trade between the USSR and the developed countries are subject to fluctuations.

4. There is also no doubt that, in order to be more consistent in joining the international division of labour to provide real aid to the developing countries, the USSR must solve one question which is of fundamental importance for its economic development, namely the volume of its military expenditures. Of course, the way this question is answered will depend not only on the Soviet Union.

5. We must also underline the fact that the external economic contacts of the USSR should be equally aimed at co-operation with the state and private sectors of the economy in the developing countries.

6. It is natural that the premise which implies the necessity for openness of the Soviet economy and its deeper involvement in the international division of labour and which made it possible to begin foreign economic reforms earlier than domestic changes is an absolutely correct and progressive one. Unfortunately, it cannot yet serve as a basis for real change. However, it does lay the basis for such change in the future, because already now it successfully solves two problems - the intensification of trade and capital flows and the democratization of participation in these processes. This is what underlies the decrees of 1986-1989 on foreign economic relations. These documents allow a large number of new participants to take part in foreign economic contacts, and they also remove the direct restrictions on the right to independently plan and do business in the foreign economic sphere. They also remove restrictions on the forms of possible relations and on the right to retain and use some share of hard currency earnings. More specifically:

- In two consecutive steps (January 1987 and April 1989), the right to direct access to foreign markets was shifted from a limited number of central bodies to producers. As a result, over 15,000 participants in foreign economic relations have now been registered. They may account for more than 40 per cent of foreign trade turnover;

- Producers are given the right to participate in the investment process jointly with foreign partners (this right was fully enacted in April 1989), as well as abroad (this right was provided by the Decree of the Council of Ministers of 18 May 1989). By November 1990, there were about 2,000 joint ventures in the USSR, including over 100 joint ventures with developing countries;

- The participants in foreign economic relations now have the right to use their hard currency earnings, and appropriate changes are provided for in the banking sphere. In the future, this right should provide enterprises with growing opportunities, ranging from participation in currency options and exchanges of currency for goods and roubles on agreed terms to the full use of it.

7. So, on the whole, all the above-mentioned decrees are aimed at removing administrative prohibitions for Soviet producers and their foreign partners.

8. Another series of measures which is set out in these as well as in some other decrees is designed to remove market constraints. The aim is to grapple with a situation in which there are no insurance services, no foreign trade credits and no convertibility of the rouble. The latter problem is being addressed by means of revoking the system of exchange coefficients beginning from 1990 and setting the rouble-dollar exchange rate in 1991 at a level twice as high as it is today. This part of the reform deals largely with the establishment of market infrastructure, without which the principle of cost-accounting and hard currency self financing cannot fully apply.

9. Measures regulating foreign economic relations are also beginning to take shape. Among them we can mention the registration of participants in foreign economic relations and licensing which was introduced in March 1989, as well as the provision of certain privileges for joint ventures in the Far East (April 1989). The latter can be viewed as territorial regulation.

10. The adoption of a series of authorizing decrees, which do not affect directly or specifically third world countries, means the following as far as relations with the third world are concerned:

- In principle, the very fact that authorization for certain actions has been given to producers makes it likely that they will participate in relations with the developing countries, without being bound by direct restrictions;

- Soviet organizations are ready to import goods from the developing countries, in particular computers and other high-tech products (for production purposes), as well as consumer goods (financing purchases from the foreign exchange funds for social development of enterprises). Soviet enterprises could import products from, inter alia, the newly industrialized countries of South-East Asia, India and some other countries. The above-mentioned decrees contain no direct restrictions on this activity;

- Export resources are needed to cover import expenditures, and it is very difficult to find such resources. For example, the export of manufactures to developing countries is now impaired by the existence of a number of general economic problems in the USSR, and support is needed to promote such exports;

- If enterprises have resources for exports to developing countries from which they can receive either hard currency or goods which they need, they try to use their own channels and not to participate in the implementation of protocols of intergovernmental trade agreements or agreements on economic and technical assistance. The risk is that there will be a reduction of the level of exports to the developing countries, which for many years exceeded imports. Exports, inter alia, played a certain role in balancing imports from the developing countries and were also used as a compensatory measure in cases where obligations stipulated by agreements with developing countries were not fulfilled;

- Barriers to exports of goods and capital to the USSR are formally removed in respect of the developing countries. In fact, though, there is no purchasing capacity (in terms of foreign exchange) for the import of goods, and there is not much interest in the import of capital (in the latter case ways will have to be found for repatriating profits - either through supplies of goods or new investment, etc.).

11. In other words, at this stage of perestroika in foreign economic relations when the laws of the market are not yet fully in effect, when commodity-related or geographic incentives have not yet been introduced, and when the system is designed in such a way that it encourages relations explicitly with CMEA member countries but only implicitly with developed countries (since it does not eliminate the problem of the shortage of hard currency), Soviet producers to a certain extent lose interest in trading with the developing countries. At the same time, producers from the third world, when dealing with the Soviet economy, expect special treatment. This is so firstly because these contacts are not easy ones and are rather unreliable due to the market tendencies and secondly because such treatment is given to them by all industrial countries throughout the world.

12. In this connection, a question can be asked - is there a real potential for the development of these relations and is it true that the imperfections of the reform make it difficult to see and use this potential?

13. Of course we can only give an approximate answer to this question, since we do not have the necessary estimates of dynamic comparative advantage. Nevertheless, it seems that the flow of resources between the Soviet Union and the developing countries has some potential which can be used to increase the efficiency of the national economy.

14. Oil and oil products, rolled ferrous metals and chemical products dominate Soviet exports to the developing countries today. In 1988, exports of machinery and equipment to the developing countries amounted to only 2 billion roubles, while overall exports to these countries were estimated at 9.6 billion roubles. Heavy metal-working tools accounted for the largest share in the exports of machinery and equipment, while aviation technology accounted for only 25 per cent.

15. Soviet imports from the developing countries comprise mostly agricultural and industrial raw materials and foodstuffs. Fabrics, clothes and perfumery account for only a small share. For instance, clothes accounted for 8 per cent of imports in 1988, while practically no footwear, leather haberdashery products, toys or electronics were imported from the developing countries.

16. Such a trade structure would look normal for a country with an extremely low level of industrial development, an expensive labour force and abundant natural resources, but the fact is that a relatively high level of industrial development has been reached in the USSR. The production of heavy machinery and equipment, as well as other manufactured goods of medium technological complexity, is developed. There exist large natural-resource-processing industries in the Soviet Union. Labour is very cheap by international standards, with a substantial number of unemployed, especially in Central Asia. This makes labour-intensive technologies profitable enough and hampers the restructuring of the economic branch structure. To tell the truth, though, labour-intensive production in the USSR is not yet internationally competitive, but if it is improved, (among other things through investments from the developing countries), the cost of export production will be relatively low and Soviet exports will be able to gain new markets. At the same time, the production of labour-intensive goods with small raw material inputs (such as electronics and some light industry products) will for a long time remain more efficient in the developing countries. Thus, a counter-flow of labour-intensive imports to the USSR may also be useful and mutually profitable.

17. Technological research and development are also "up to the mark" in the Soviet Union, but their technical application (to say nothing of the series production of high-tech goods) lags considerably behind production in many industrial countries.

18. All of the above testifies to the fact that the stereotype of the Soviet Union as an advanced industrial power is certainly exaggerated. The technological potential of the developing countries can become a source of numerous resources the Soviet Union needs. Moreover, the possibilities of trade with the third world are so great that a large share of current trade flows between the USSR and industrial countries of Europe and North America can be redirected toward them.

19. The new scheme for the participation of the Soviet Union in the international division of labour has not yet been elaborated in detail as far as separate groups of countries are concerned. According to the most general expectations, imports from the third world will make it possible to lighten

the burden placed upon natural resources and will contribute to the full supply of the consumer goods market. Exports to third world countries must include predominantly machine-building products. Under this scheme, imports of the following commodities from the developing countries may increase: tropical foodstuffs, consumer durables, hard fibres, wool, cotton, rubber, tropical timber, foundry products, some sorts of rolled metal, medicines, sporting goods, machine-building products, and bauxites. Soviet exports may grow through increased supplies of machine tools, aircraft, tractors, agricultural machinery, road-building equipment, electronics, fertilizers, timber products, paper cellulose, pulp construction materials, coal, and vegetable oils.

20. An analysis of this list suggests that it is compiled with regard to comparative advantages which cannot be easily realized. The export possibilities of the Soviet Union are obviously over-estimated, while the possibilities of the developing countries are under-estimated. The real structure of the trade turnover will perhaps be different and will reflect, on the one hand, the possibility of many developing countries (and above all the NICs of Asia) to supply the USSR with items numbering among the traditional exports of the industrial countries and on the other hand the limited possibilities of the Soviet Union to play the role of a highly developed industrial power on the world market.

21. Taking into account the polarization of growth of the developing countries, one should make a distinction between the prospects of relations with the most developed among them - the newly industrialized ones - and the least developed countries. In relations with NICs, the pattern of comparative advantage is practically the same as with the industrial countries: capital-intensive and high technology goods should prevail in the structure of Soviet imports, and resource-intensive and labour-intensive goods should prevail in the structure of Soviet exports (resource-intensive products can include refined fuel and metal-intensive equipment of medium complexity). Exports may also include technological processes.

22. Development of trade and investment can be important already today, but becomes especially so bearing in mind the future of the NICs. Today it could strengthen the comparative position of Soviet suppliers and importers (as any diversification of relations does) and could give advantages in prices and terms of credit. Attracting investment from the NICs could also be quite profitable. The relative importance of the NICs' markets will be especially important in the future, since these are the most dynamic markets of the world and they are the leading suppliers of certain commodities to the world market. It is equally important for the NICs to establish export markets in the USSR. The inflow of capital from the large companies of the NICs, which spread their branches all over the world, including the United States, might be directed to any industry - to satisfy the demands of the Soviet internal market or to make use of comparative advantages in the production of certain export commodities.

23. When it comes to the comparative advantages of the USSR vis-à-vis the LDCs, they tend to be similar to the advantages of the industrial countries. It would be irrational to disregard the markets of the LDCs in a situation where export opportunities for machine-building branches are decreasing and the need to import food, agricultural and mineral resources remains.

2. Barriers to trade with the developing countries and ways to eliminate them

24. The factors which impair the development of economic relations with the developing countries can be broken up into two groups. The first group relates to the difficulties of the overall economic reform and the conceptual isolation of the reforms of the overall and foreign economic blocs from one another. In the final analysis, all internal changes are of significance for the foreign economic sphere. The effects on the pricing mechanism and the level of prices, which should be linked as early as possible with the external market (but according to a clear-cut programme), the regulation of markets of deficit goods (which strongly affects the external sphere), the development of monetary and credit systems, where the internal elements should be linked with the external ones, the overall regulation of investment and consumer demand, and the allocation of centralized funds between them are all important for the foreign economic sphere. Let me specify which elements of the economic reform that is still under way most strongly affect relations with third world countries.

25. The effort to promote the development of market relations by means of wholesale trade of the means of production has not yet borne fruit. "Suffocating" without the necessary equipment, components, spare parts and materials, enterprises which are potential exporters to the developing countries are also losing their traditional suppliers, as the share of state orders in their activity is decreasing. This above all affects enterprises in the machine-building complex, undermining the very idea of independent access to the third world market. The volume of resources allocated is usually insufficient, and enterprises have to "fight" for them. All this makes the fulfillment of state orders aimed at economic development undesirable for producers. The difficulties of obtaining the necessary resources also affect the prospects for independent relations of enterprises with the developing countries. Very often these difficulties force enterprises to drop projects involving new forms of relations, for example setting up joint ventures in the USSR or such forms of co-operation where the developing countries import raw materials which they do not have, process them and then export back as manufactured products.

26. The fact that the internal market is not saturated with goods (while prices are rising and enterprises have an opportunity to push them up without control) explains why production is becoming so heavily oriented towards the domestic market.

27. The problem of export production for the developing countries and of attracting capital from these countries is becoming more intense due to the fact that the credit system is very immature in the USSR. The diversification of the structure of the banks, as well as their specialization, means that credit is not really available for producers, and strict credit control (as well as detailed reports to the bank) is no substitute for the comprehensive assistance which is provided by the bank to the client in the developed countries.

28. Another factor which hampers the development of trade with the third world countries in the non-convertibility of the rouble. However, convertibility alone will not be enough to improve relations with these countries. What is more important is to find such a division of labour with the developing countries which would satisy the short-term interests of the partners involved and which would make it possible to accelerate the structural changes in their economies. But this is difficult, because the

pricing mechanism for thefactors of production in the Soviet economy remains administrative and is not subject to market laws. Bringing this mechanism into line with market relations will give an indicator of competitiveness to individual producers and of efficiency of participation in the international division of labour to the country (or to the branch) at large.

29. This problem is no less important than the problem of rouble convertibility. The structure of foreign economic relations which can be considered optimal today will turn out not to be optimal after adjustments are made in prices for the factors of production. But only this new level of prices can serve as a basis for choosing new specialization in the dynamic sense, that is with an eye to intensifying production in certain branches, changing the balance of supply and demand in certain commodity markets, and giving rise to flows of investments and capital resources, as is the practice worldwide.

30. So far, the price ratios of the factors of production have been sending the wrong message, and it would be premature to build the structure of relations with developing countries on the basis of these ratios. At the same time, some regulatory measures have been taken in the field of foreign trade (restrictions on exports of raw materials through licensing and encouragement of exports of machinery and equipment through indirect, non-economic channels). Such an approach testifies to the fact that the present structure of production and price ratios which have not yet been affected by the economic reform are being taken as a basis for future foreign trade. This is very unfavourable from the viewpoint of relations with the third world, because such a branch strategy is short-lived and it also overestimates the comparative position of the Soviet Union and misleads both Soviet and foreign partners.

31. The second group of factors which can hamper the development of trade and investment between the USSR and the third world relates to the mechanism for foreign economic relations themselves. The situation here can be improved more easily. As in the case of domestic reform, the bulk of the problems here stem from the deficits of all kinds that exist in the economy. The task is to find ways to solve these problems.

32. The main problem is the shortage of hard currency as a means of payments and this can be cushioned by the development of foreign exchange credits or by using other forms of accounting, for instance countertrade. Since foreign exchange credits are more progressive than the barter operations, they should be developed as a matter of priority. Some steps have already been taken in this direction: the optional sources of foreign exchange credits have been increased, and they now include Soviet banks abroad and foreign banks. In addition, the right to use foreign exchange credits is now enjoyed by the producers themselves. At the same time, though, this in no way undermines the monopoly of the Bank for Foreign Economic Relations, which has not yet been relieved of all of its responsibility. This is due to the fact that even when other sources are used for borrowing, this bank must be a guarantor of payments. That is why the bank's concept of solvency and its requirements on providing evidence with regard to capacity to pay off credit apply to all organizations concerned. As a result, the provision which stipulates that enterprises may borrow funds for the import of raw materials, spare parts, machinery and equipment for their own purposes (the decree of the Council of Ministers of 2 December 1988) is interpreted in a narrow sense - the bank only allows the import of those products which are necessary for export production. But not all enterprises which want to export to the developing countries can submit a well founded feasibility evaluation to the Bank for Foreign Economic Relations and receive foreign exchange credits.

33. Enterprises which want to set up a joint venture with developing country partners, which in their turn do not have enough flexibility as far as ways of arranging credits are concerned, find themselves in an especially difficult situation. Such enterprises have to resort to unprofitable or unnecessary (at this moment) export operations in order to open a foreign exchange account, to which the partner, using a complex procedure, then transfers currency. Such currency may be viewed as a credit.

34. Taking into account the difficult situation with respect to currency in the country, one can hardly ask the Bank for Foreign Economic Relations to ease up its requirements. But at the same time we cannot regard the policy of the Bank, namely to operate without losses, as a reasonable one. The reason for this approach is clear. It lies in the administrative banking system, which is based on non-economic approaches and within which there is no room for the idea of temporary losses. This makes it even more important in the USSR to introduce the system of credit insurance (which is in operation throughout the world). Of course, this cannot be done easily, since the funds of foreign-trade insurance institutions are usually refinanced by central banks, and their Soviet counterpart, the State Bank of the USSR, is unwilling to bear the risk. The Bank for Foreign Economic Relations takes the same stance on the question.

35. It will hardly be possible today to appropriate funds for this from the budget, and a source of funds has to be found. For instance, a long-term borrowing by either the State Bank or directly by a future insurance insitution could be made on the international capital market.

36. The system of foreign trade insurance should be promoted, in compliance with the Decree of 12 December 1988. I am absolutely certain that this is one of the prerequisites for the successful development of relations with the third world. Insurance that guarantees the interests of foreign partners is in no way less important for the overall success of the relations.

3. How can Soviet relations with the third world be stimulated?

37. Solving the problem of foreign exchange credits and creating a system of foreign trade insurance as far as the developing countries are concerned would mean providing basic conditions for the development of economic relations. But there is one more set of measures that must be taken which cannot be viewed as the removal of clear cut obstacles, since these measures imply rather the encouragement of separate forms and directions of contacts. These measures are necessary to provide normal conditions for the development of trade and capital flows. The fact of the matter is that special incentives are needed to develop contacts with the third world countries. Such incentives should not be additional to the normal conditions, but must compensate for present-day distortions, which orient participants in foreign economic contacts towards the markets of the West and the East.

38. The reform of external economic relations implies the encouragement of this geographical direction of contacts. But today all that such encouragement consists of is the establishment of associations of business co-operation (which are not able to provide adequate support for contacts with the countries in question), as well as the hope that the reorganized permanent trade delegations abroad will ensure the exchange of information and will help to sign appropriate agreements. In reality, it seems very difficult to bridge the informational and methodological gap which separates us from the business circles of the third world. To overcome this problem, certain expenditures should be undertaken (to create data banks and for construction). In addition, intensive and multidimensional activity in the developing countries is required on the part of the Ministry of Foreign Economic Relations, the Ministry of Foreign Affairs and the Chamber of Commerce and Industry.

39. Given the peculiarities of the structure of trade with the developing countries, it is also of major importance to stimulate exports of engineering and consulting services, as well as of some machine-building products, from the Soviet Union. The only advantage which exporters of such items have so far is that, unlike the exporters of raw materials, they do not have to obtain export licenses. But stimulation means preferential treatment in giving credits, in supplies and in wages and salary disbursements. It also implies tax breaks, as well as fewer bureaucratic formalities.

40. As to measures to stimulate imports from the developing countries, the situation here is even more complicated. The idea is that the new customs tariff (the draft of which was submitted to the USSR Council of Ministers in May 1990) should reflect the participation of the Soviet Union in the general system of preferences and contain preferences applying to imports from third world countries. At the same time, the authors of the tariff face two problems which are hardly compatible. First, the new tariffs must envisage that the home market prices for the imported goods should not be lower than those for domestic goods. Second, the tariffs must lead to the curtailing of inefficient production (and branches as a whole). Such "half-way" participation in the modern international division of labour is now very rare, and the result of the saturation of the market by goods sold at "corrected" prices might be a slowdown of the structural changes, a growth of inflation and the prolongation of the low international competitiveness of the USSR.

41. A new field of economic contacts with the developing countries - creation of joint ventures - also needs special encouragement. Internal economic conditions in the USSR are as unfavourable and unpredictable as in the developing countries, but unlike them we only allow joint ventures to be set up and we still do not create conditions which look attractive to foreign partners. At least until the convertibility of the rouble is accomplished, few developing countries will consider the idea of penetrating the Soviet market and then "waiting for better times" to be a sufficient incentive (unlike Western companies, which generally think it is an incentive enough). Thus, attracting capital and technology from the third world must be based upon clearly defined and tangible preferences.

4. Some necessary strategic decisions in the field of foreign economic relations

42. The aforementioned measures for regulating contacts with the developing countries can constitute a balanced and efficient system only if the strategic decisions in the sphere of foreign economic relations are carefully drawn. The following paragraphs discuss strategic decisions which seem to be of special importance.

(a) The general significance of economic contacts with the developing countries

Strategic decisions on this point must be based upon the assumption that the whole system of contacts with the third world is subject to radical reconstruction and that those contacts must be placed largely on an economic basis. In addition, we have to envisage the possibility of transforming the developing countries from large-scale consumers of resources provided by the Soviet Union on favourable terms into partners in equal and mutually beneficial relations.

To develop the new approach to economic contacts with the developing countries, we have to look at the entire system of these contacts, including so-called economic and technical assistance (which to a large extent isrepresented by trade based on preferential state credits), regular trade ingoods and services, and flows of investment resources. The open discussions in the Supreme Soviet as to what volume of resources can be diverted from the national economy to be transferred (on favourable terms) to the developing countries, as well as discussions on the feasibility of military aid, will presumably allow a substantial reallocation of resources in the relations of the USSR with the third world.

Unreasonable (from the economic viewpoint) withdrawals of resources from the budget should be limited. Mutually beneficial relations will be subject to the strategic decisions mentioned above, and will thus embrace new markets, such as the newly industrialized countries of South-East Asia and Latin America, which are not traditional markets for the USSR. This assistance will take the form of humanitarian and ecological aid and will be directed to the less developed countries regardless of their orientation and the ideological "flavour" of the regimes in power. Thus the general rule according to which the economic interest of the Soviet Union was in the past taken into account only inadequately should be over with. In particular, real economic needs of the Soviet Union, as strictly defined, raise the question of how possible it is to provide preferential assistance to some highly developed countries of the South, with strongly developed private sectors and an industrial potential in some branches exceeding that of the USSR.

Bringing the structure of economic contacts into conformity with the normal pattern which exists in civilized countries will provide more room for market relations and will draw the external economic mechanism of the Soviet Union closer to the model accepted in world practice. This will make easier the further development of contacts with international economic organizations such as GATT, IMF and the World Bank and with regional economic associations - the European Community, ASEAN, etc. As a result, the revision of targets for and volumes of aid provided by the USSR to the developing countries will help increase the efficiency of assistance and of regular commercial contacts.

At present, the least developed countries are heavily indebted to the Soviet Union. Resolving the debt problem is by and large in the mainstream of "the new thinking" (which implies the recognition by the Soviet Union of its responsibility for the solution of global problems, including the problem of poverty and backwardness), but the solution of this problem is also now being put on an increasingly pragmatic (from the economic viewpoint) basis.

The "new thinking" is manifested in the readiness of the Soviet Union to write off bad debts, thus relieving the financial situation of the least developed countries. The pragmatic approach takes the form of elaborating mutually convenient terms for paying back debts. For example, central ministries pass their debt claims to union republics, which in exchange purchase consumer goods in debtor countries (such is the practice in Georgia, Moldavia and the Ukraine). Paying back debt through supplies of raw materials is also practised, as are debt swaps (provided that they are converted into national currency invested in the debtor country), but we must admit that all these measures encounter great difficulties and are still far from bringing about significant results.

(b) The structure of the participation of the USSR in the international division of labour

The Soviet economy is so far deprived of the economic mechanism which would enable it to undergo reconstruction and structural improvements at the level of the home market and investment in response to the corresponding shifts on the external market, since these two markets are hardly connected with eachother (leaving aside the fact that the home market has not yet been created). One must not assume, therefore, that the optimal structure will be achieved in a natural way through the inflow/outflow of resources. The problem which emerges is the following:

Simultaneously with the introduction of market principles, we need somehow to canalize structural changes in a certain direction, thus fitting the structure into a certain pattern which most corresponds to the comparative advantages of the country in international trade. In my opinion, these advantages are determined by the relative cheapness and abundance of labour and natural resources, as well as of human capital, with capital resources and technology being expensive and rare (except for pure research without applied development). All this points to possible specialization similar to that of a developing country (labour intensive and resource intensive products), the only difference being that pure technology could take up a considerable share of exports. Imports of greater importance would include know-how and capital, along with foodstuffs, raw materials and consumer goods. Perhaps, however, the "progressive" character of exports is belittled in the above remarks.

As to the strategy set out in all official documents, namely that the major problem is to ensure the greatest possible increase in the share of machinery and equipment (not to mention modern high-tech industrial production), the improved structure may well be viewed as a desirable result of domestic structural adjustment carried out in conjunction with the development of foreign economic contacts on the basis of the proposed scheme. The transition may be gradual and can be achieved by means of the improvement of the foreign exchange situation of the country, alleviation of commodity shortages and reallocation of investments in favour of more progressive industries, when the situation on the market for factors of production so allows.

Under this approach, it is clear that the concept of the strategy for foreign economic relations of the USSR put forward by the government should be worked on further. Its drawbacks concern the envisaged shifts in the structure of exports: firstly the intended growth in machine tools and equipment (the plans do not look realistic enough, since they imply that these commodities will account for 40 per cent of exports by 2000, while their share will barely reach 25 per cent) and secondly, the decrease in the share of raw materials and fuels (this major source of foreign currency should not be neglected, especially in the view of the next energy crisis forecast for 1991-1995).

The strategy for the participation of the USSR in the international division of labour is of basic importance for relations with the developing countries, and it is from this strategy that the guidelines concerning separate geographical directions and industrial branches should be derived.

5. The most promising areas of co-operation with the developing countries

43. The preservation of the former specialization of the Soviet Union, provided that the scale of its foreign economic activity grows, is advantageous enough for the developing countries themselves. Furthermore, their new possibilities in this sense are not fully comprehended yet and seem to be significant. As a matter of fact, the USSR does not compete with the developing countries as an exporter; it will gradually leave the market for ores and other non-renewable resources, while on the market for renewable resources it does not compete with goods from third world countries (the timber from Siberia differs from tropical wood). At the same time, as an importer the USSR can give the considerable impetus to the development of its trade partners from the third world, including producers of labour-intensive consumer goods, as well as exporters of high-tech investment products.

44. Another important element which may contribute to the development of relations between the USSR and the third world is the creation of a mechanism to improve information on internationally tradeable Soviet goods. The following measures deserve attention:

- Access of the developing countries to the foreign trade data banks which are now being set up;

- Publication of complete foreign trade statistics of the USSR;

- Substantial improvement of advertising work by Soviet organizations and foreign firms doing business on the Soviet market;

- Participation of specialists from the developing countries in the training of Soviet foreign trade managers;

- Wider participation in exhibitions and fairs;

- "Experimental" purchases by the USSR of certain consumer goods from developing countries;

- Participation of developing countries in industrial production in the USSR as sub-suppliers.

45. Of special importance is the fact that the potential of the reconstruction of international flows of resources connected with the reform in the Soviet Union opens up new possibilities for the developed countries of Europe and North America also. It is enough to mention that the shift of flows of cheap labour-intensive Asian goods from the markets of the developed countries could make it possible to lighten their pressure in terms of social troubles, simultaneously breaking the strong dependence of the industrial growth in Asian countries upon the dynamics of demand (and therefore of a number of macroeconomic indicators) in the developed countries. The situation is similar for research-intensive products from the developing countries, this group of exports being of special significance for structural changes in the economy of those countries.

46. In the longer run, the Soviet Union could become a large market for high-tech and research-intensive goods from the industrial countries, exports of which will soon become vitally important for modernized and highly efficient branches of their economies.

47. We can clearly define the conditions necessary for the Soviet Union to carry out its mission as a new source of growth for the developing and developed countries. They are the increase of paying capacity by means of long-term credits, and the improvement of the absorption capacity of its market by opening it up. In particular, large-scale imports of electronics to satisfy the demand for consumer durables and to upgrade the general technological level of production, or the construction of automobile-building and other machine-building plants - all this is possible only on the basis of long-term credits, provided that the USSR receives large packages of private and mixed credits. It is clear today that both external influences (the first being the direct transfer of resources, the second indirect) are important not only for the Soviet Union itself but for the world economy as a whole, and to some extent for the international community from the viewpoint of political and military stability.

48. A certain role in resolving these problems, which are common to all groups of countries, could be played by institutions of the United Nations system. In particular, the further broadening of the contacts of the USSR with GATT, as well as with the World Bank and IMF, and especially full membership of the USSR in these bodies, could considerably contribute to the improvement of Soviet external monetary, financial and trade relations.